December 27, 2017

Matthew Rodriquez, Secretary
California Environmental Protection Agency
1001 I Street
Sacramento, CA 95814

Dear Mr. Matthew Rodriquez,

In accordance with the State Leadership Accountability Act (SLAA), the Air Resources Board submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Edie Chang, Deputy Executive Officer, at (916) 324-8031, Edie.chang@arb.ca.gov.

BACKGROUND

The California Air Resources Board (CARB) is a part of the California Environmental Protection Agency, an organization which reports directly to the Governor’s Office in the Executive Branch of California State Government.

The Mission of the California Air Resources Board:

- To promote and protect public health, welfare and ecological resources through the effective and efficient reduction of air pollutants while recognizing and considering the effects on the economy of the state.

The Major Goals of the Board are to:

- Provide Safe, Clean Air to All Californians
- Protect the Public from Exposure to Toxic Air Contaminants
- Reduce California’s Emission of Greenhouse Gases
- Provide Leadership in Implementing and Enforcing Air Pollution Control Rules and Regulations
- Provide Innovative Approaches for Complying with Air Pollution Rules and Regulations
- Base Decisions on Best Possible Scientific and Economic Information
- Provide Quality Customer Service to All ARB Clients

ONGOING MONITORING

As the head of Air Resources Board, Richard Corey, Executive Officer, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Air Resources Board internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Edie Chang, Deputy Executive Officer.
Monitoring Activities
Through our ongoing monitoring processes, the Air Resources Board reviews, evaluates, and improves our systems of internal controls and monitoring processes. The monitoring process includes but is not limited to weekly meetings of the Executive Office on emerging issues and current events, weekly focus meetings on issues needing Executive Office guidance and decisions with open discussions of risks and alternatives. Key stakeholders are included through public workshops, and meetings with the local Air Districts and the California Air Pollution Officers Association. ARB audits the local Air Districts for compliance with program compliance and performance along with fiscal controls. ARB has determined we partially comply with California Government Code sections 13400-13407.

Addressing Vulnerabilities
Procedures vary depending upon the type of control deficiency identified. Programmatic deficiencies are assigned to the relevant program chief, and monitored via weekly meetings with the appropriate Deputy Executive Officer and, on occasion, the Executive Officer. Administrative deficiencies are addressed by the chief of the Administrative Services Division, in consultation with the appropriate control agencies and under the oversight of the appropriate Deputy Executive Officer and the Executive Officer. Similarly, deficiencies associated with information technology are addressed by the chief of the Office of Information Services, in consultation with the appropriate control agencies and under the oversight of the appropriate Deputy Executive Officer and the Executive Officer.

Communication
Monitoring roles, activates and results are communicated through weekly Executive Staff meetings and focused program meetings. Program managers follow-up with their staff in both written and verbal forms.

Several of the Deputy Executive Officers have continued to meet internally, with consultants, and Alice Stebbins. The consultants prepared a report summarizing the meetings and action items for continuous monitoring. ARB’s Legal, Budget, Contracts, Human Resources, Accounting and a newly created Audit unit actively engage Program Managers throughout the agency on the status of program development.

Ongoing Monitoring Compliance
The Air Resources Board is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Air Resources Board systems of controls and monitoring.

Risk Assessment Process
The following personnel were involved in the Air Resources Board risk assessment process: Executive Management, and Middle Management.

Risk Identification
The Executive Team, including the Executive Office, Chair’s Office and Division and Office Chiefs, along with key members of the CARB management team independently identified the most significant risks to meeting their objectives. CARB’s management team then met to prioritize the risks and identify potential solutions.
Risk Ranking
Procedures vary depending upon the type of control deficiency identified. Programmatic deficiencies are assigned to the relevant program chief, and monitored via weekly meetings with the appropriate Deputy Executive Officer and, on occasion, the Executive Officer. Administrative deficiencies are addressed by the chief of the Administrative Services Division, in consultation with the appropriate control agencies and under the oversight of the appropriate Deputy Executive Officer and the Executive Officer. Similarly, deficiencies associated with information technology are addressed by the chief of the Office of Information Services, in consultation with the appropriate control agencies and under the oversight of the appropriate Deputy Executive Officer and the Executive Officer. Risks were ranked through evaluation by the Executive Staff and consider the immediate threat to current operations, the affect on meeting program mandates, and, lastly, how successful programs could be improved.

Risks and Controls

Risk: Operations - Internal Staff — Key Person Dependence, Workforce Planning
24 percent of ARB’s staff is 55 or older. Retirement and imminent retirement of key managers and staff have the potential to compromise the ability of CARB to meet its mission.

Demographics of the workforce and CARB’s need to recruit experts in the field tend toward highly educated and seasoned candidates.

Due to the need for these highly skilled staff, CARB must actively recruit year round.

Control A

- Succession plan under development to meet current needs
- Administration Academy in place to support supervisors and management
- Access to training, including tuition assistance in place
- Informal mentoring encouraged
- Consultant hired to update the Strategic Plan and assist in implementing a formal recruitment and succession plan
- Human Resources Branch conducts needs assessments to determine the current and future human resource requirements of the organization.
- Recruiting at colleges and universities based on survey results received from ARB divisions.
  - Partnering with colleges and universities to establish undergraduate and graduate internship programs.
  - Collaborating with ARB’s Public Information Office (PIO) to use various media forms to improve recruitment efforts.

Risk: Operations - Internal - FISCAL Implementation, Maintenance, or Functionality
FISCAL is the new accounting system for the State of California. CARB is rolling out FISCAL in July 2018. FISCAL will affect every aspect of CARB’s administrative operations and must be successfully implemented to avoid adverse impacts to CARB’s mission.

CARB must implement FISCAL.

CARB is progressively implementing change management within and meeting all the FISCAL task deadlines. Poor implementation of FISCAL would negatively impact CARB’s daily operations, affecting the
agency’s ability to procure needed equipment and services, and pay vendors. Missing the 2018 implementation of FISCAL would delay but not prevent FISCAL implementation. ARB is making every effort to successfully implement in 2018.

**Control A**

- CARB has reengineered its processes and created new procedures in both Administrative and Programmatic functions.
- CARB hired 5 staff to handle the rollout of FI$CAL
- CARB has trained division liaisons on changes to procedures to ensure a seamless transition.
- Change management continues to be a challenge as all functions of the organization are now interdependent.
- Adjustments to FI$CAL workload will slow administrative processes

**Risk: Operations - External - Technology—Data Security**

ARB is in compliance with State data security practices and remains proactive in implementing security technologies and organizational and management practices to protect information assets. However, there is no way to completely eliminate all vulnerabilities, especially in legacy systems. The following security practices are in place with a goal of increasing data security for all ARB systems.

It is necessary to implement these security measures due to entities continually trying to hack into the State’s electronic systems.

And it is critical that all staff are trained in information security and protective firewalls are set up to ensure hackers cannot infiltrate CARB’s systems.

**Control A**

ARB has implemented new security software in order to increase security surrounding confidential data and improve the response times for remediating known security risks. CARB continues to review and update a Manual for Information Security, containing all policies pertaining to the Confidentiality, Integrity and Availability of the CARB’s systems and information assets. These policies adhere to and leverage the CA Statewide Information Management Manual and the National Institute of Standards and Technology cyber security frameworks. CARB is implementing a Server Administration Standard in order to increase the security of our server systems and their data. The CARB’s information security program has completed an audit and is utilizing the results to increase the CARB’s information confidentiality, integrity, and availability.

**Risk: Compliance - External - Complexity or Dynamic Nature of Laws or Regulations**

ARB is at the forefront of California’s climate mitigation efforts. However, California represents less than 2 percent of worldwide greenhouse gas emissions so it is critical that other jurisdictions follow California’s lead on climate mitigation in order to impact global climate change.

Green house gas emissions come from air contaminants across the world.

And without mitigation efforts, further global warming will occur.
CONTROL A

- Designing regulations and other programs to be portable nationally and internationally
- Memoranda of Understanding and other agreements with other jurisdictions to build partnerships for climate action
- Hosting international visitors for information sharing

CONCLUSION

The Air Resources Board strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

CARB strives to reduce the risks inherent in our work through ongoing monitoring.

CARB accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Richard Corey, Executive Officer

CC: California Legislature [Senate (2), Assembly (1)]
    California State Auditor
    California State Library
    California State Controller
    Director of California Department of Finance
    Secretary of California Government Operations Agency